

**OVERSIGHT BOARD TO THE FORMER  
COMMUNITY REDEVELOPMENT AGENCY  
OF THE CITY OF COMPTON**

**STAFF REPORT**

DATE: NOVEMBER 20, 2013

TO: THE HONORABLE CHAIR AND BOARD MEMBERS

FROM: EXECUTIVE DIRECTOR

SUBJECT: UPDATE ON DEPARTMENT OF FINANCE (DOF) COMMUNICATIONS

**BACKGROUND:**

In accordance with the Oversight Board directive, the Successor Agency has prepared the following update on communications between the Successor Agency and the State Department of Finance (DOF) since the last Oversight Board meeting.

**DISCUSSION:**

Since our last Oversight Board meeting, the Successor Agency has had the following correspondence with the DOF:

- 1.) July 23, 2013: Agency received a demand letter from DOF for payment regarding the DDR-LMIHF Fund Balance.
- 2.) October 10, 23 2013, the Successor Agency submitted a response letter to the Department of Finance concerning DOF Demand Letter.

**RECCOMENDATION:**

Staff recommends the Board receive and file this report.

**DR. KOFI SEFA-BOAKYE**  
**REDEVELOPMENT MANAGER**

**APPROVED FOR FORWARDING:**  
**G. HAROLD DUFFEY**  
**EXECUTIVE DIRECTOR**

Attachments:

DOF Demand Letter For Payment –DDR-LMIHF  
Agency Response Letter DDR



DEPARTMENT OF  
**FINANCE**

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

July 23, 2013

Mr. Kofi Sefa-Boakye, Director  
City of Compton Successor Agency  
205 South Willowbrook Avenue  
Compton, CA 90220

Dear Mr. Sefa-Boakye:

Pursuant to Health and Safety Code (HSC) section 34179.6 (f), the City of Compton Successor Agency was ordered by the California Department of Finance (Finance) on November 21, 2012 to remit to the county auditor-controller \$11,204,736 in unencumbered Low-and-Moderate Income Housing Funds. In a decision following a meet-and-confer session held on December 21, 2012, the ordered amount remained unchanged.

According to our records, the Successor Agency has yet to remit \$11,204,736 of the ordered sum. If this is not correct, and the Agency has remitted the full ordered sum, please provide proof of payment to both Finance and the county auditor-controller.

I strongly encourage you to promptly remit the ordered sum to the county auditor-controller if you have not already done so. If for some reason the Successor Agency cannot immediately remit the entire sum, HSC section 34179.6 (h) (3) authorizes Finance to review requests for an installment payment plan. If you wish to make installment payments, please notify your Agency's assigned Finance review staff immediately. Upon receipt of your request, Finance will work with your Agency to determine whether installment payments are appropriate, and whether a payment plan can be finalized within the next 30 days.

Alternatively, Per HSC section 34179.6 (h), failure to remit the ordered sum within five business days of Finance's meet-and-confer decision may result in the one or more of the following:

- Sales & Use Tax Withholding: For those situations where the amount to be remitted has previously been transferred to the city, Finance is expecting to request the Board of Equalization to withhold an equivalent amount of sales and use tax distribution from the city that created the former redevelopment agency (RDA). Such withholding would likely occur in October of 2013.
- Property Tax Withholding from Successor Agency: Finance is expecting to direct the withholding by the county auditor-controller of an equivalent amount of property tax out of the RPTTF from the Successor Agency. If the withholding of property tax revenue from the Successor Agency is ordered, the withholding will take effect with the June 2013 Redevelopment Property Tax Trust Fund allocation.

- County Auditor Controller Remedy: Based on a successor's particular circumstances, Finance may not seek the remedies described previously. However, the county auditor-controller may decide, at his or her own discretion pursuant to HSC section 34179.6 (h), to reduce the property tax allocation to the Successor Agency or the local agency that currently possesses the sums in question.

Finance has no desire to seek any of the above remedies against either the Successor Agency or the city or county that is performing the duties of the Successor Agency. **However, if the Successor Agency fails to remit the ordered sum to the county auditor-controller within 30 days of the date of this letter, Finance is prepared to utilize any of the above-described remedies provided for by law.**

If Finance does not immediately pursue the remedies described previously, additional actions are still available to seek your compliance with the ministerial duties set forth in HSC section 34179.6 For example, Finance will determine if it is appropriate to file a petition for writ of mandate in the Sacramento Superior Court seeking an order for the Successor Agency to remit the ordered sum to the county auditor-controller.

If you have questions regarding remittance instructions, please contact your county auditor-controller's office to ensure that they have reported the accurate remittance amount to Finance.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Szalay", with a stylized flourish at the end.

STEVE SZALAY  
Local Government Consultant

cc: Mr. Michael Antwine, Deputy Director, City of Compton  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office



*City of Compton*  
**SUCCESSOR AGENCY**  
to the Community Redevelopment Agency

**DR. KOFI SEFA-BOAKYE**  
Director



(310) 605-5511  
Fax. (310) 637-3484

Via Email: October 10, 2013

Mr. Steve Szalay  
California Department of Finance  
Local Government Consultant  
915 L Street  
Sacramento, CA 95814-3706

Re: Successor Agency to the Community Redevelopment Agency of the City of Compton  
Low and Moderate Income Housing Fund Due Diligence Review

Dear Mr. Szalay:

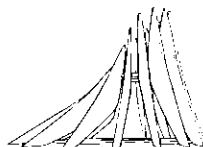
The California Department of Finance has notified the Successor Agency to the Community Redevelopment Agency of the City of Compton that the Successor Agency's Low and Moderate Income Housing Fund balance available for distribution to the affected taxing agencies is \$11,204,736, as determined pursuant to the LMIHF due diligence review and as adjusted by the DOF ("Remittance Amount").

The Remittance Amount is largely made up of two receivables which total \$10,917,180: \$5,589,180 -- listed in the DDR as due from other funds of the Successor Agency, and \$5,328,000-- listed in the DDR as due from the City of Compton. The \$287,556 balance of the Remittance Amount is unrestricted cash (i.e., \$302,556 cash on hand less \$15,000 approved LMIHF expenditures for ROPS III).

The only money immediately available for remittance to the taxing entities is unrestricted cash in the LMIHF in the amount of \$287,556. As discussed below, the Successor Agency contends that the DOF should reduce the Remittance Amount to \$287,556.

\$5,589,180 Receivable

The \$5,589,180 receivable is listed in the LMIHF DDR as due from other funds of the Successor Agency. This receivable reflects a repayment obligation to the LMIHF from non-housing tax increment revenues to reimburse the LMIHF for non-affordable housing expenditures.



**COMPTON CITY HALL**

205 South Willowbrook Avenue Compton, California 90220  
[www.comptoncity.org](http://www.comptoncity.org) [www.smartcompton.com](http://www.smartcompton.com)

This receivable should not be counted as part of the June 30, 2012 LMIHF balance available for transfer to the taxing entities because it is not cash or a cash equivalent. Per Health and Safety Code Section 34179.5, amounts that are not cash or a cash equivalent are to be deducted from the LMIHF balance and pursuant to the DOF's Procedures for Due Diligence Review published on its website, cash and cash equivalents do not include long-term receivables. This receivable constitutes a long-term receivable. As shown in the Successor Agency's all other funds due diligence review, there are no non-housing funds available to pay this receivable.

In fact, pursuant to Health and Safety Code Section 34176(e) (6), this receivable is properly considered a housing asset that transfers to the housing successor for the former Compton Redevelopment Agency, being the repayment of a loan owed to the LMIHF. As such, the loan constitutes an enforceable obligation under Health and Safety Code Section 34171(d)(1)(G), meaning that the loan is to be included on the ROPS and to be repaid from RPPTF, with the repayments being remitted to the housing successor.

Based on the foregoing, the amount of \$5,589,180 should be deducted from the Remittance Amount.

#### \$5,328,000 Receivable

The \$5,328,000 receivable is listed in the LMIHF DDR as due from the City of Compton. This receivable reflects the purchase price agreed to be paid by the City for parcels that the former Redevelopment Agency acquired from the City with LMIHF moneys, but did not ultimately develop as affordable housing. These parcels are now operated by the City as parks. There is a severe deficiency in the amount of available park and open space land in the City of Compton according to the National Recreation and Parks Association (60 acres vs. the recommended 500 acres) and it is vital that these four parks continue to serve the residents of Compton.

This receivable should not be counted as part of the June 30, 2012 LMIHF balance available for transfer to the taxing entities because it is not cash or a cash equivalent. Per Health and Safety Code Section 34179.5, amounts that are not cash or a cash equivalent are to be deducted from the LMIHF balance and pursuant to the DOF's Procedures for Due Diligence Review published on its website, cash and cash equivalents do not include long-term receivables. This receivable constitutes a long-term receivable. In recognition of the City's well-publicized precarious financial situation, the City Council previously adopted a resolution establishing a 20-year schedule for payment of the purchase price for the parks.

Attached for your information is an excerpt from the official statement prepared in connection with the issuance by the City of its 2013-14 tax and revenue anticipation notes which describes the City's fiscal crisis. As set forth in the official statement, for fiscal years 2009-2013, total City-wide expenditures exceeded total City-wide revenues and for fiscal years 2009-2012, General Fund expenditures exceeded General Fund revenues. The City's unaudited 2011 financial statements set forth a negative fund balance as of June 30, 2011 for the General Fund of approximately \$41.2 million. The Independent Auditors' Report related to the 2011 Financial Statements noted, among other things, that the amount of deficits, interfund liabilities, accounts payable and accrued liabilities within the General Fund indicated "significant liquidity problems" as of June 30, 2011. During the fiscal year ended June 30, 2012, the City experienced continued stress on its General Fund. The City's unaudited, internally prepared financial statements for the fiscal year ended June 30, 2012 reflect an approximately \$3.63 million deficiency of General Fund revenues under General Fund expenditures. The City's General Fund experienced an approximate \$1.2 million surplus of revenues over expenditures for the fiscal year ended June 30, 2013, but as of June 30, 2013, the City's General Fund still suffers

from a cumulative negative fund balance of approximately \$43.15 million. The City has cut services, laid off one-third of its employees, and renegotiated contracts.

The City is not presently able to pay the purchase price for the subject parcels. Given the precarious financial situation of the City, there can be no assurance with respect to how long it will take for the City to pay the full purchase price. Until there is a significant improvement in the City's financial situation it may not be possible for the City to make any payments.

Based on the foregoing, the amount of \$5,328,000 should be deducted from the Remittance Amount for immediate transfer to the taxing entities. In any event, the City has no present ability to make payments toward the purchase price in light of the City's fiscal crisis.

Request for DOF to Refrain from Implementation of Penalties

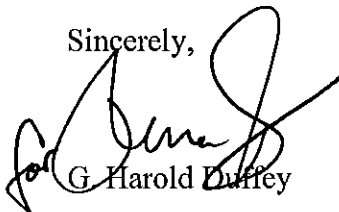
Based on the information set forth in this letter, the Successor Agency requests that neither DOF nor the County Auditor-Controller implement any of the remedies set forth in Health and Safety Code Section 34179.6(h), including offsetting the City's sales and use taxes or property taxes or deducting unpaid amounts from allocations of property taxes to the Successor Agency. The Successor Agency contends that the Remittance Amount should be reduced by the amount of the two receivables discussed herein. In any event, any attempt to offset the City's sales and use taxes or property taxes would be catastrophic to the City and exacerbate the City's already precarious financial situation. Any such offset will worsen the City's already serious fiscal crisis and will significantly impair the City's ability not only to provide basic services, but also to provide essential health and safety services.

The Successor Agency and City expressly reserve all of their rights, legal and equitable, respecting the amount in dispute (\$10,917,180). The Successor Agency's and City's communications with the DOF regarding the disputed amount do not constitute a waiver of their right to pursue all remedies, legal and equitable, in connection with a challenge to the disputed amount.

Included within this letter is the Successor Agency's proof of payment and remittance to the Los Angeles Auditor-Controller the sum of \$287,556, which is the balance of the Remittance Amount is unrestricted cash (i.e., \$302,556 cash on hand less \$15,000 approved LMIHF expenditures for ROPS III). This is evidenced by the City's purchase order no. D00564.

Thank you for your consideration of this matter. If you need any additional documents or information, please contact my office at (310) 605-5585.

Sincerely,



G. Harold Duffey

Executive Director

cc: Mr. Kylie Le, Supervisor, California Department of Finance  
Mr. Brian Dunham, Lead Analyst, California Department of Finance,  
Andrea Scharffer, Finance Budget Analyst  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office

**City of Compton**

CITY CONTROLLER  
205 S. WILLOWBROOK-COMPTON, CA 90221  
TELEPHONE: (310) 605-5576

**PURCHASE ORDER NO.**

D00564

TO RECEIVE PROPER PAYMENT THE ABOVE PO NUMBER MUST APPEAR ON ALL  
INVOICES, BILLS OF LADING, PACKAGES, CORRESPONDENCE, ETC.

10/10/13

**VENDOR:**

L A COUNTY AUDITOR/CONTROLLER  
DISBURSEMENTS TAX/DIV  
500 W TEMPLE ROOM 524  
LOS ANGELES, CA 90012

**DELIVER TO:**

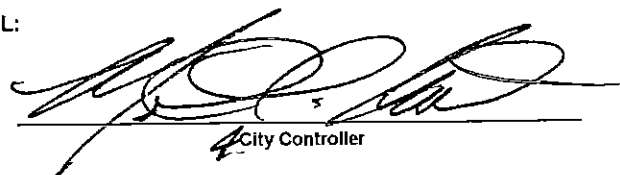
CITY OF COMPTON  
205 S WILLOWBROOK  
COMPTON, CA 90220

**SEND INVOICE TO:** Compton Controller  
Compton, City Hall  
205 S. Willowbrook  
P.O. Box 5118  
Compton, CA 90221

Req. # 91R04430	Vendor # 00492011	Ship Via	Department 91	
Confirming <input type="checkbox"/> yes <input type="checkbox"/> no	Confirmed to	Terms	Date Required	
QUANTITY	PART NO.	DESCRIPTION	UNIT PRICE	EXTENDED PRICE
1		Remittance payment for Due Diligence Review Report- Low Moderate Income Housing Fund.	287,556.00	287,556.00
TOTAL				287,556.00

1201910000 4290

287,556.00

**APPROVAL:**  
City Controller

Department Head